

SENATE BILL REPORT

SB 5981

As Reported by Senate Committee On:
Ways & Means, February 27, 2015

Title: An act relating to limitations on state debt.

Brief Description: Concerning limitations on state debt.

Sponsors: Senator Braun.

Brief History:

Committee Activity: Ways & Means: 2/25/15, 2/27/15 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5981 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Bailey, Becker, Brown, Hewitt, O'Ban, Padden, Rolfes, Schoesler and Warnick.

Minority Report: Do not pass.

Signed by Senators Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Billig, Conway, Fraser, Hasegawa and Kohl-Welles.

Minority Report: That it be referred without recommendation.

Signed by Senators Hatfield and Parlette.

Staff: Brian Sims (786-7431)

Background: The state Constitution limits state debt through a formula that prohibits the State Treasurer from issuing any general obligation (G.O.) bonds if the resulting debt service payments for those bonds would cause total debt service payments for G.O. bonds to exceed a certain percentage of average general state revenue in the prior six years. That certain percentage is currently 8.5 percent and is scheduled to phase down to 8.0 percent on July 1, 2034.

G.O. bonds are issued with a promise to bond holders that the full faith and credit of the state will be used to pay what is owed to the bond holders. There are a number of exemptions to the debt limit on bonds backed by the full faith and credit of the state, including state G.O.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

bonds for transportation projects that are first reimbursed by the gas tax, and bonds issued by local school districts for school construction projects.

State law further limits debt by defining a working debt limit and requires the Governor and Legislature to develop the capital bond budget within that working limit. The working debt limit would tighten debt capacity compared to the constitutional debt limit starting in fiscal year 2022.

Summary of Bill (Recommended Substitute): A second working debt limit is created by limiting new bond appropriations to no more than 5 percent of the near general fund operating budget appropriations. For purposes of this working debt limit, debt that is outside the Constitution's debt limit but for which debt service is paid for with appropriated funds must be included. The Governor and Legislature must develop the capital bond budget within whichever working debt limit is lower.

Existing authority that allows the Finance Committee to recommend higher working debt limits based on extraordinary economic conditions is eliminated.

Technical changes are also made to the existing working debt limit to better align the statute with the constitutional debt limit.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): Bond appropriations for grants to public schools for additional classrooms necessary for state-funded class size reduction for kindergarten through third grade are exempt from the new debt limit.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: OTHER: The Treasurer's office appreciates the committee's ongoing deliberations concerning state debt. However, we are concerned about the potential workarounds that weaken statutory limits. We would encourage a different way of working together on setting limitations on all kinds of debt including debt backed by the gas tax. Investors look at our entire debt portfolio when rating the state's bonds.

Persons Testifying: OTHER: Scott Merriman, State Treasurer's Office.